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A CHANGE: As veteran subscribers know, over recent years I have concentrated more and more of my energy on the main trend of the market—and less on the selection of individual stocks. I did this for two reasons: (1) I believe that identifying a bull or bear market is a more reliable procedure than picking individual stocks that are apt to move up or down. (2) For decades analysts stated that "you can't buy the averages." But with the rise of no-load funds you can not only buy the trend of the market—you can buy funds that will often outperform the market.

I have found over the years that the average investor does better in a bull market buying a no-load fund than he does buying individual stocks (and, of course, I'm talking about buying during a primary bull market such as the one we are in now). So my thinking evolved to the point where I have suggested over and over again that the best way to participate in this or any other bull market is to buy a good no-load fund, a fund that is growth oriented (for instance, those who took my advice and bought Fidelity's Magellan Fund have seen their investment more than double since late-1982).

Over the last year I have become increasingly worried about US defense capabilities, particularly our defense capabilities vs. those of the Russians. I view the situation as one of gradual erosion of power, a situation in which the US has been literally unable or unwilling to respond to Russian aggression. As a typical example, compare President Kennedy's response to the Soviet's placing of missiles in Cuba with the situation today in which Cuba is bristling with missiles—while the US simply ignores the situation. Look at the situation in which Russia is pouring weapons into Central America, a situation which would have been utterly unthinkable in the 1960s (at which time the US was still well ahead of Russia in military capabilities).

At any rate, in order to bring the whole picture to the attention of my readers (many of whom have strategic jobs in important places) I decided to include an educational Defense Section in these Letters. I have done this (with the expert aid of Mr. Melvyn Lippman) because I believe that the US/Russian military build-up and particularly the massive rise in Soviet military capabilities will evolve into literally a life-and-death confrontation sometime during the next three to five years.

Last February, in order to illustrate my interest in the potentially profitable end of the military situation (and in view of the coming massive military build-up) I included a list of 10 stocks, a list which was later expanded to 13. By mid-June the price average of this list had risen 44%. Since then the list has shown a drop-off in net appreciation to roughly 25%.

I strongly suggested buying *all* the stocks on the list rather than attempting to pick the winners. As it happened, BDM and Bolt Bareneck more than doubled in price while Electronics Associates proved to be the dog of the list, falling by half. Those who bought the entire list have (up to now) shown a profit in a difficult period.

But since June we have seen an extended revolving "inner correction" going on in this market, and the technology stocks in general have suffered. I now feel that *I made a mistake* in recommending individual stocks rather than insisting that subscribers stay with the previously recommended no-load funds.

I never like to see potential profits turn to potential losses, and for that reason I now suggest that subscribers cut back substantially on their defense stocks or even eliminate these stocks completely from their portfolios. If subscribers had purchased these stocks when I suggested them and the way I suggested they be bought—they should now have no worse than a thankless round trip, or in some cases losses.

For those who wish to hold the stocks, I will repeat that these are important defense sub-contractors, and that over the next year or so most of them should have sizable contracts from primary contractors and from the Defense Department. In due time, most of the stocks should go higher, but for now I would rather preserve capital (preservation of capital is always uppermost in my mind when writing these reports).

As this Letter is written (Sunday, October 23) my PTI is at 1766, only 12 points from its October 10 record high of 1778. The Transportation Average is extremely resistant to decline, even though the Dow is sloppy. The sagging A-D ratio indicates (as it has since June 16) that the bulk of the market has been hit, but the action of both the Transportation and Utility Averages and the PTI suggest that there is stubborn technical resistance to this corrective action. The new record high in the NYSE short interest (now 182 million shares short) is a major plus for this bull market (short interest on the AMEX is also up sharply). The bull market will resume in due time—and with a vengeance.

My next Letter will be mailed on Wednesday, November 2nd.